

Message Text

CONFIDENTIAL

PAGE 01 LONDON 05699 01 OF 03 151946 Z

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ACTION EB-11

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C O N F I D E N T I A L SECTION 01 OF 03 LONDON 05699

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E. O. 11652: XGDS
TAGS: ENRG, UK
SUBJECT: BRITISH AND AMERICAN OIL COMPANY VIEWS ON
CONSUMER COUNTRY COOPERATION

BEGIN SUMMARY: BP, SHELL AND ESSO EUROPE OFFICIALS
IN MEETING WITH FUNKHOUSER, S/ PC, AND EMBASSY ENERGY
OFFICER EMPHASIZED IMPORTANCE OF US MAKING EFFORT
TO TIE INTO EXISTING OECD EMERGENCY SHARING ARRANGEMENTS
(ALONG WITH JAPAN, CANADA AND AUSTRALIA) US FAILURE TO
MOVE POSITIVELY AT OECD OIL COMMITTEE SESSION IN JUNE
MIGHT EXACERBATE CONCERN OVER SECURITY OF SUPPLY OF
HAVE- NOT CONSUMER NATIONS AND ACCELERATE TREND TOWARD
DIRECT BILATERAL DEALINGS WITH OIL PRODUCER GOVERNMENTS.
BP AND ESSO HOLD DIAMETRICALLY OPPOSED VIEWS HOWEVER
ON DESIRABILITY OF INTERGOVERNMENTAL AGREEMENT PROVIDING
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PAGE 02 LONDON 05699 01 OF 03 151946 Z

FOR CONSUMER GOVERNMENT IMPOSITION OF DISCIPLINE OVER "NORMAL" COMPANY OPERATIONS THROUGH IMPORT LICENSING SYSTEM. BP BELIEVES CONSUMER GOVERNMENTS NEED TO EXERT COUNTERVAILING SOVEREIGN POWER INDIRECTLY THROUGH IMPORT LICENSING PROCEDURE IN ORDER TO BALANCE OFF INCREASED PRODUCER GOVERNMENT POWER. ESSO BELIEVES AN INTERGOVERNMENTAL AGREEMENT PROBABLY WOULD BE NON-NEGOTIABLE OR INEFFECTIVE AND THAT IMPORT LICENSING PROCEDURE MIGHT WELL ACCELERATE THE UPWARD MOVEMENT OF OIL PRICES. END SUMMARY.

1. BP OFFICIALS TOLD US BP HAD CONCLUDED ABOUT FOUR MONTHS AGO THAT (A) THERE WAS A NEED TO EXERT COUNTERVAILING SOVEREIGN POWER TO BALANCE PRODUCER GOVERNMENT POWER, (B) CONSUMER GOVERNMENTS THUS FAR HAD NOT WANTED TO TAKE A STRONG STAND WHEN FACED WITH POSSIBLE SHORTAGES, (C) NO LIMIT TO PRICE RISES WAS FORESEEABLE EXCEPT LEVEL AT WHICH OIL OBTAINABLE FROM NON- CONVENTIONAL SOURCES (APPROXIMATELY \$6 A BARREL BY 1980 S), AND (D) IT WOULD BE BENEFICIAL TO CONSUMERS TO PRESERVE PREDOMINANT ROLE OF OIL COMPANIES AS SUPPLIERS. ACCORDINGLY, BP, CONVINCED THIS WAS A MATTER OF GENUINE URGENCY, DEVELOPED IDEA OF INTERGOVERNMENTAL AGREEMENT AMONG MAJOR CONSUMERS UTILIZING EXISTING GOVERNMENTAL IMPORT LICENSING MACHINERY. BP OFFICIALS SAY UK, GERMANS AND ITALIANS WERE ONLY NATIONS THAT DID NOT NOW HAVE ADEQUATE EXECUTIVE POWER TO CONTROL IMPORTS (US, FRANCE AND JAPAN DID) AND HMG COULD EASILY ACQUIRE AUTHORITY BY ORDER. THEY ADMITTED GERMANS, AND ESPECIALLY ITALIANS, MIGHT ENCOUNTER SOME PROBLEMS BUT DISMISSED LATTER AS COMPARATIVELY UNIMPORTANT IN ANY EVENT.

2. BP THINKING NOW HAS EVOLVED TO POINT WHERE IT CAN SKETCH OUT SOME SPECIFIC CRITERIA BASED ON WHICH IMPORT LICENSES MIGHT BE GRANTED OR DENIED. SUPPLIER COMPANY SEEKING LICENSE WOULD BE REQUIRED TO HAVE LONG TERM CONTRACTS FOR SUPPLY WITH PRODUCERS, BE FINANCIALLY AND OTHERWISE " RESPONSIBLE," SPEND REASONABLE SUMS ON EXPLORATION AND DEVELOPMENT OF OIL RESERVES IN ALTERNATE SUPPLY LOCATIONS, CONDUCT RESEARCH AND DEVELOPMENT (ON CONFIDENTIAL

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PAGE 03 LONDON 05699 01 OF 03 151946 Z

WHAT WAS NOT SPECIFIC), REFRAIN FROM DEALING IN " HOT OIL," AND, ABOVE ALL, BE CAPABLE OF ASSURING ADEQUATE REFINING CAPACITY OVER LONG TERM. CRITERIA FOR EC COULD BE AGREED TO IN BRUSSELS WITH APPROPRIATE ENFORCEMENT BY INDIVIDUAL NATIONAL GOVERNMENTS. BP OFFICER

INTIMATED THAT CRITERIA FOR US OR OTHERS MIGHT BE

SOMEWHAT DIFFERENT AS LONG AS MAIN PURPOSES OF INTER-
GOVERNMENTAL UNDERSTANDINGS MET.

3. BP UNDERLINED IMPORTANT ROLE THAT EMERGENCY SHARING
ARRANGEMENTS WOULD NECESSARILY PLAY. BEYOND GOVERNMENT
TO GOVERNMENT ASSURANCE IN OECD ARRANGEMENT, IT MIGHT
BE NECESSARY FOR INDIVIDUAL COMPANIES TO COMMIT THEM-
SELVES IN EVENT OF WORLDWIDE COMPANY SHORTAGE TO
PRORATION AVAILABLE SUPPLIES ON EQUAL BASIS TO ALL

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PAGE 01 LONDON 05699 02 OF 03 151950 Z

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ACTION EB-11

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C O N F I D E N T I A L SECTION 02 OF 03 LONDON 05699

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CONSUMER COUNTRY AFFILIATES.

4. BP WAS PERSUADED SUCH APPROACH BY CONSUMERS WOULD
MAKE IT DIFFICULT FOR PRODUCER GOVERNMENTS TO TEAR UP
AGREEMENTS WITH COMPANIES SINCE CONSUMER GOVERNMENTS
WOULD BE " JUST BEHIND THE HORIZON." ASSURANCES TO HAVE
NOT CONSUMERS OF RECEIVING MFN TREATMENT AND OECD
EMERGENCY SHARING ARRANGEMENTS WOULD GIVE CONSUMERS
CONFIDENCE TO HOLD LINE.

5. BP SAID SPAAK OF EC COMMISSION BACKED BP IDEAS IN PRINCIPLE AND SIMONET WOULD BE IN LONDON TO TALK ON MAY 14. BP ALSO NOTED THAT SHELL BACKED ITS APPROACH. (NOTE: RECENT EDITION OF PETROLEUM INTELLIGENCE WEEKLY CITES SENIOR SHELL OFFICIAL AS ADVOCATING AT RECENT HARVARD SEMINAR INTERGOVERNMENTAL OIL AGREEMENT AMONG CONSUMERS AND PRODUCERS MODELED AFTER INTERWAR COMMODITY

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PAGE 02 LONDON 05699 02 OF 03 151950 Z

AGREEMENTS ON RUBBER AND TIN.

6. ESSO EUROPE OFFICIALS PROVIDED SUBSTANTIALLY DIFFERENT ANALYSIS OF CONSUMER COOPERATION ISSUE. THEY SAW SHORT TERM AD HOC PROBLEMS OF POLITICALLY INSPIRED CUTOFFS OF SUPPLY SUCH AS NEWLY THREATENING LIBYAN SITUATION, TROUBLE IN LEBANON, ETC., AS MOST IMPORTANT ONES WITH WHICH GOVERNMENTS COULD DEAL MOST EFFECTIVELY. THEY URGED US TAKE PART AS SOON AS POSSIBLE IN OECD-BASED ALLOCATION SYSTEM DESIGNED TO EASE OR THWART EMERGENCIES RESULTING FROM POLITICAL ACTS. ESSO THOUGHT US, CANADA, AND JAPAN MUST REACH SHARING AGREEMENT TIED INTO EXISTING EUROPEAN SYSTEM IN OECD IF US HOPES TO KEEP CONSUMER NATIONS TOGETHER. ESSO OPINED US SHOULD EVEN ACCEPT RATIONING IF EUROPEANS ACTUALLY WILLING TO MAKE THIS MANDATORY FOR THEMSELVES. BUT US SHOULD NOT HAVE TO ABIDE BY HIGHER EUROPEAN STOCKPILING REQUIREMENT (EVEN IF IT SHOULD BE MADE COMPULSORY RATHER THAN VOLUNTARY AS NOW) BECAUSE WE HAVE DOMESTIC PRODUCTION WHICH IS EQUIVALENT TO STOCKPILING.

7. ESSO ARGUED US SHOULD SPECIFICALLY OPT OUT OF ANY EMERGENCY RELIEF ASSISTANCE ARRANGEMENT WHEN EMERGENCY SELF- INDUCED, I. E., ARISING FROM DOMESTIC ECONOMIC RATHER THAN EXTERNAL POLITICAL ACT SUCH AS ITALIANS SETTING CEILING PRICES AT LEVEL WHICH EFFECTIVELY BARRED IMPORTATION AT ECONOMIC PRICE FOR COMPANIES.

8. ESSO ESTIMATED THAT OVER THE MEDIUM TERM OF 6 TO 8 YEARS THERE IS ENOUGH OIL AROUND, ASSUMING PRODUCERS CAN BE PERSUADED TO ALLOW MAXIMUM EFFICIENT RATE OF RECOVERY. (COMMENT: SHELL DISAGREED COMPLETELY WITH THIS ASSUMPTION ARGUING THAT FOR ECONOMIC REASONS MIDDLE EAST PRODUCERS WILL DECIDE TO LIMIT INVESTMENTS IN MIDDLE EAST AND WEST AND KEEP OIL IN GROUND. MOREOVER, SHELL FORECASTS WORLD DEMAND OUTRUNNING SUPPLY AS EARLY AS 1976.) ESSO THOUGHT THIS AVAILABILITY ASPECT, PHYSICAL HARDWARE REQUIREMENTS AND ENVIRONMENTAL CONSTRAINTS WERE MAIN PROBLEMS FACING COMPANIES AND CONSUMERS. ESSO OFFICIALS ASSUMED THAT ALASKAN AND NORTH SEA DEVELOPMENT WOULD PROCEED IN A REASONABLE

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PAGE 03 LONDON 05699 02 OF 03 151950 Z

TIME FRAME AND THAT SAUDI ARABIA AND IRAN WOULD REMAIN AS MAIN SOURCES OF SUPPLY. IN THIS CONTEXT ESSO THOUGHT INTERGOVERNMENTAL AGREEMENT BASED ON IMPORT LICENSING DISCIPLINE WOULD BE COUNTER-PRODUCTIVE AND TEND TO PUSH UP PRICES BY CHALLENGING PRODUCERS. THEY THOUGHT IN ANY EVENT THAT CONSUMER HAVE NOTS SUCH AS JAPAN, ITALY, FRANCE, ETC., WOULD NOT SIGN UP SO EASILY. HAVE NOTS ALMOST INEVITABLY MUST HAVE SUFFICIENT BAD EXPERIENCE WITH DIRECT BILATERAL DEALS OVER A LONG PERIOD OF TIME BEFORE REALIZING A MULTILATERAL APPROACH MIGHT BE TO THEIR REAL ADVANTAGE. INTERGOVERNMENTAL AGREEMENT WOULD NOT CONSTITUTE ENOUGH OF A SECURITY BLANKET TO DAMPEN ENTHUSIASM FOR BILATERAL DEALS. ESSO, ON THE OTHER HAND, IS CONVINCED OECD EMERGENCY SHARING ARRANGEMENT WILL KEEP BILATERAL DEALING PROBLEM FROM GETTING OUT OF HAND BY REASSURING HAVE NOTS THAT US AND UK WILL NOT COMPEL PRE-EMPTORY COMPANY DIVERSION OF OIL TO HOME COUNTRIES IN TIME OF CRISIS.

9. ESSO OFFICIALS SUMMED UP BY STRESSING IMPORTANCE OF HANDLING POLITICAL EM
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PAGE 01 LONDON 05699 03 OF 03 151955 Z

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C O N F I D E N T I A L SECTION 03 OF 03 LONDON 05699

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10. IN BRIEF COMMENT ON LONG RUN PICTURE, ESSO OFFICIALS OBSERVED WORLD MIGHT BE REACHING LIMITS OF RESERVE CAPACITY BY ABOUT 1985 AND ACTUAL PRODUCTION MIGHT DECLINE BY 1990-95 AT LEVEL OF 90-100 MILLION BARRELS A DAY. BY THEN, NUCLEAR ENERGY AND OTHER ENERGY FORMS SHOULD BE READY TO TAKE UP THE SLACK.

11. RESPONSIBLE ESSO OFFICIAL OFFERED A FEW COMMENTS ON EC- OECD PICTURE. HE WAS CERTAIN EUROPEANS WOULD BE FRUSTRATED AND DISAPPOINTED IF AFTER STATEMENTS MADE AT LAST OECD OIL MEETING, US DID NOT SAY AND DO SOMETHING CONSTRUCTIVE. HE BELIEVED UK MIGHT TAKE LEAD WITHIN EC FRAMEWORK IF US DID NOT BACK INTERGOVERNMENTAL IDEA AT OECD. HE THOUGHT BP WOULD IN ANY EVENT REALLY PREFER TO FOLLOW RELATED "APPROVED COMPANY" CONCEPT WITHIN EC AND HMG WOULD SUPPORT BP. SHELL NOT
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PAGE 02 LONDON 05699 03 OF 03 151955 Z

SUPPORTING "APPROVED COMPANY" IDEA - AT LEAST NOT YET, BUT POSITION COULD CHANGE IF LIBYAN HOLDINGS WENT BAD. ESSO OFFICIALS VOLUNTERED THAT, DESPITE WHAT US MAY SAY, FRENCH ALREADY SUSPECT WE HAVE MADE OUR DEAL IN SAUDI ARABIA, ESPECIALLY SINCE US HAS NEVER REFUSED YAMANI OFFER IN CLEAR TERMS. ASKED WHETHER US OUGHT THEREFORE TO SUPPORT GLOBAL INTERGOVERNMENTAL AGREEMENT PROPOSED BY UK AS TACTICAL GAMBIT TO HEAD OFF TURNING INWARD IN EC FRAMEWORK, ESSO OFFICIALS SAID IT MIGHT BE BETTER FOR COSMETICS TO GO ALONG WITH JAPANESE IDEA FOR WORLDWIDE ENERGY GROUPING WHICH WOULD ACCOMPLISH LITTLE BUT TALK.

12. ESSO OFFICIALS COMMENTED THAT SHOULD SAUDIS GET BURNED ON DOWNSTREAM OR OTHER INVESTMENTS, WE MIGHT BE IN FOR SERIOUS TROUBLE (PRESUMABLY CUTBACKS IN SAUDI PRODUCTION). THEY SUGGESTED USG PUT TOGETHER INFORMAL ADVISORY GROUP WHICH COULD HELP SAUDIS INVEST INTELLIGENTLY.

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